

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application)

.of)

WAI'OLA O MOLOKA'I, INC.)

For review and approval of rate)
increases; revised rate schedules; and)
revised rules.)

Docket No. 2009-0049

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COMMISSION

WAI'OLA O MOLOKA'I, INC.'S
REBUTTAL TESTIMONY OF ROBERT L. O'BRIEN

EXHIBITS WOM-R-1 TO WOM-R-7

and

CERTIFICATE OF SERVICE

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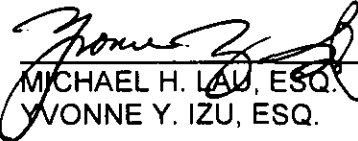
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**WAI'OLA O MOLOKA'I, INC.'S
REBUTTAL TESTIMONY OF ROBERT L. O'BRIEN**

COMES NOW, WAI'OLA O MOLOKA'I, INC., by and through its attorneys, Morihara Lau & Fong LLP, hereby submits its Rebuttal Testimony of Robert L. O'Brien and Exhibits WOM-R-1 to WOM-R-7 consistent with the Stipulated Regulatory Schedule (Exhibit "A") contained in the Order Approving Proposed Procedural Order, as Modified, filed on November 6, 2009.

DATED: Honolulu, Hawaii, February 10, 2010.



MICHAEL H. LAU, ESQ.
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Morihara Lau & Fong LLP
Attorneys for WAI'OLA O MOLOKA'I, INC.

DIRECT TESTIMONY OF ROBERT L. O'BRIEN

1

2

3 Q. Please state your name and business address.

4 A. My name is Robert O'Brien and my business address is 1753 Via Mazatlan, Rio
5 Rico, Arizona 85648.

6 Q. Are you the same Robert O'Brien who presented direct testimony in this
7 proceeding?

8 A. Yes, I am.

9 Q. What is the purpose of your rebuttal testimony?

10 A. I will provide rebuttal testimony to the direct testimony of Mr. Dean Nishina on
11 behalf of the Consumer Advocate.

12 Q. Have you prepared an exhibit showing the differences between the Company and
13 the Consumer Advocate?

14 A. Yes, I have. Exhibit WOM R-1 shows the differences between the Company and
15 the Consumer Advocate positions at present rates, temporary rates and proposed
16 rates. Columns 1 to 6 show the Company data for the results at present rates,
17 temporary rates and proposed rates as filed, adjustments as proposed by the
18 Company and as adjusted respectively. The Consumer Advocate's presentation at
19 present rates, temporary rates and proposed rates are shown in columns 7 to 9
20 respectively and the differences at proposed rates are shown in column 10.

21 Q. Please identify the proposed adjustments shown in columns 4 and 5.

1 A. The proposed adjustments are listed on page 2 of Exhibit WOM-R-1 and, with the
2 exception of Adjustment A, will be discussed in connection with each of the
3 adjustments included in my rebuttal. Adjustment A on line 34 in column 4
4 reflects the change in the working capital amount included in rate base that results
5 directly from the changes in expenses shown in columns 4 and 5 on lines 7 to 19
6 of Exhibit WOM-R-1 in an amount equal to one-twelfth of the total expense
7 adjustments.

8 Q. Why have you shown the revenue based on the temporary rates for the Company
9 instead of the original rates as reflected in the Consumer Advocate's proposal?

10 A. It is important to include the level of the temporary rates because those rates are
11 the actual rates used to calculate the customers' monthly bills at this time and at
12 the time the rates from this proceeding will be effective. It is that level that
13 should be used as the base to determine the impact on customers from the
14 proposed rates. The difference in the Consumer Advocate's revenues at
15 temporary rates and proposed rates, which reflects the average impact to the
16 customer based on the current bills, is \$211,305 (CA-124, line 16, column 9) an
17 increase of approximately 87.2 percent over the revenue at temporary rates of
18 \$242,224 (CA-121, line 14, column 8).

19 Q. Have you prepared an exhibit that shows the calculation of the percent increases
20 in proposed revenues compared the present revenues and proposed revenues?

21 A. Yes, I have. Exhibit WOM-R-2 contains the revenues for the Company (lines 1 to
22 5) and the Consumer Advocate (lines 8 to 12) at present rates, temporary rates and

1 proposed rates. The percent increases are shown on lines 6 and 7 for the
2 Company and on lines 13 and 14 for the Consumer Advocate. This shows that,
3 under the Consumer Advocate's presentation, the revenue increase, as it would
4 impact the actual customer bills is substantially less than the, "...over 300%." as
5 shown in Mr. Nishina's testimony on page 46, line 10. The increase in the
6 customers' bills under the Consumer Advocate's revenue increase proposal is
7 87.2 percent as shown on line 14 and not the 324.0 percent shown on line 13. Mr.
8 Nishina proposes that the calculation of the percent impact on customers in this
9 case should be measured using the proposed rates and the last approved rates
10 (column 3, line 13). The use of the difference between the present rates and the
11 proposed rates clearly does not measure the impact on customers' bills (and the
12 resulting concern over rate shock) and should not be used to determine rate shock.
13 Any rate shock calculation should be a measurement of the change in the
14 customers' bills, which would be the difference in the proposed rates and the
15 temporary rates. The Commission should measure the relationship between the
16 revenues at the final approved rates to the revenues at temporary rates in
17 determining the actual impact on the customers and for any calculation of rate
18 shock from the final approved rates. Recognizing that an increase in customers'
19 bills of 87.2 percent is significant and close to the increase level initially proposed
20 by the Company (92.1 percent as shown on line 7) the Company still supports its
21 proposal for a two-stage phase-in of the rate increase and the timing of the
22 increase over a six-month period. The Consumer Advocate's proposal to provide

1 for a phase-in over twelve months should be rejected because of the significant
2 losses reflected for the test year, even under the Consumer Advocate's proposed
3 expense levels.

4 Q. What are the areas of the Consumer Advocate's testimony that you will be
5 providing rebuttal testimony?

6 A. I will rebut the Consumer Advocate's proposed positions on:

- 7 • Revenue
- 8 • Salaries & Wages
- 9 • Employee Benefits and Payroll Taxes
- 10 • Electricity Expense
- 11 • Cost of Sales
- 12 • Affiliated Charges
- 13 • Professional & Outside Services
- 14 • Repairs & Maintenance
- 15 • Rate Case Expense
- 16 • Depreciation and Accumulated Depreciation
- 17 • Income Tax Expense and Related Rate Base Elements
- 18 • Rate of Return
- 19 • Excess Capacity
- 20 • Company Records

1 Q. Does the Company adopt the Consumer Advocate's recommended customer
2 level, test year water sales and resulting revenues at present rates and at temporary
3 rates?

4 A. Yes. The Company believes that the Consumer Advocate's test year revenues are
5 reasonable. The 40,990 thousand gallons ("TG") proposed by the Consumer
6 Advocate is very close to the updated Company estimate of 41,436 TG reflected
7 in Confidential Attachment CA-IR-50b. In addition, the three most recent months
8 average usage of 3.463 TG for the three months ended January 2010 is
9 approximately the same as the average monthly usage in the CA's recommended
10 sales of 3.416 TG. The adjustments to reflect this change in the Company's
11 position are shown as Adjustment B on Exhibit WOM-R-1, column 4, lines 1 and
12 2.

13 Q. Please describe the Company's position on the Salaries and Wages ("S&W")
14 adjustment proposed by the Consumer Advocate.

15 A. The Company agrees with the Consumer Advocate for the removal of one
16 position as presented by Mr. Nishina. Removing Employee # 8, as shown on
17 Workpaper WOM 10.1, page 1 of 3, line 18 column 9 would reduce WOM test
18 year expenses for S&W by \$8,320. In addition, there would be a reduction in the
19 payroll taxes and employee benefits as presented on Workpaper WOM 10.1, page
20 2 of 3, line 17 which totals \$5,884 as shown in column 11. The total of these
21 reductions of \$14,204 ($\$8,320 + \$5,884 = \$14,204$) is removed from the
22 Company test year expenses on Exhibit WOM-R-1, line 7 in column 4 and

1 reflected as adjustment C. However, the Company does not agree with the other
2 Consumer Advocate adjustments to S&W. First, the Company objects to the
3 removal of the 3.0 percent wage increase granted to the employees working on
4 WOM matters as shown in the Company's filing. The fact is that the Company
5 has not given a general wage increase since 2002. The only increases have been
6 for obtaining certification and for changes in job assignments. In instances where
7 an employee was hired after 2002 there has been no increase from the hire date.
8 Under such circumstances, the Company believes these employees were entitled
9 to a modest increase. The Consumer Advocate does not present any comparative
10 data concerning the competitive nature of the jobs or the continuing level of
11 responsibilities for the employees. The only basis included on page 19 of Mr.
12 Nishina's testimony is the mention of current economic conditions and the
13 possibility that some customers of the Company could be facing pay decreases or
14 job losses. Mr. Nishina does not recognize that the Company's employees have
15 not had an increase in their base pay (except for ones related to certifications or
16 increased responsibilities) for two, three or seven years, depending on hire date,
17 during which time some of the customers are likely to have had pay raises. The
18 Company believes that the 3.0 percent pay increase that was effective on
19 September 1, 2009 should be included in the test year S&W expense.

20 Q. Do you agree with the Consumer Advocate's adjustment to remove 50 percent of
21 the test year medical and dental expense to impose the cost on the employees?

22 A. No, I do not.

1 Q. Please explain.

2 A. While the Company understands the nature of the current economic conditions,
3 which are somewhat improved from 2008 and early in 2009, the Company
4 believes it and its employees have recognized those conditions with the fact that
5 the employees have received no general wage increases for two to seven years
6 and to now impose an additional net pay reduction without other compensation
7 would be unfair to the employees. In addition, these benefits have been in effect
8 since the water department employees were brought over to the Company in 2002
9 when MPL did not renew its contract with Island Utility Services Limited, which
10 was the company performing the support services for the utility operations under
11 contract prior to that time. Finally, these benefits were part of the union
12 agreement which was first signed in 1999, and still in effect today, when the
13 employees joined the Company in 2002.

14 Q. Do you have a suggestion to address this concern in a future rate case?

15 A. Yes, I do. I suggest that the employee pay rates remain where they are today
16 together with the benefit levels that exist. The Company would commit, as done
17 in other instances where there are similar requirements for employees that require
18 review, to reduce the level of benefits paid by the Company and increase the level
19 of employee pay to provide some compensation for the reduction. The Company
20 would agree to provide such documentation in its next rate case and show the
21 reasonableness of its new compensation package by presenting comparative
22 standards. In this way, the employees are not penalized and the Company can

1 have an opportunity to make the changes, to the extent that comparable
2 compensation packages support the level suggested by the Consumer Advocate.

3 Q. Has the Consumer Advocate provided any support for the 50 percent reduction
4 proposed?

5 A. No. While the Company understands the reason for the Consumer Advocate's
6 concern, it believes that it should be given a chance to make a reasonable change
7 and update both its pay rates and benefits packages, which it could do with the
8 above proposal.

9 Q. Have you reviewed the Consumer Advocate's calculation of electricity expense
10 for the test year as presented on Exhibit CA-113, pages 1 and 2?

11 A. Yes, I have.

12 Q. Are there any changes that need to be made to the expense recommendations
13 shown on that exhibit?

14 A. Yes, there are. First, the Consumer Advocate, on pages 47 and 48 of Mr.
15 Nishina's testimony, recommends against the use of an automatic adjustment
16 surcharge ("APCAC") in this proceeding and then states that the Consumer
17 Advocate has included a reasonable value for unit costs of electricity should be
18 used when an APCAC is not in place.

19 Q. Do you agree with that recommendation or with the rate per kWh recommended
20 by the Consumer Advocate?

21 A. Normally, I would not. I think, especially for small water or wastewater utilities
22 that have a significant expense for electricity purchases, it is very important to

1 have these clauses. Significant changes in the prices for each of these
2 commodities can cause significant increases or decreases in the small utility
3 expenses which are extremely difficult for the small utility to fund. For example,
4 referring to Exhibit WOM-R-3, the charge per kWh in column 4 ranged from a
5 low of \$0.3769 in June 2009 to a high of \$0.6161 in August 2008. This is an
6 increase of approximately 63 percent. An APCAC would have allowed the
7 Company to recover those price increases, which were the result of its electricity
8 supplier, Maui Electric Company ("MECO"), price changes to reflect changes in
9 its production costs or overall rates that would have been subject to the
10 Commission's approval or authorization.

11 Q. Is there another significant advantage to the utility and its customers from the
12 establishment of an APCAC?

13 A. Yes, there is. An APCAC will allow the utility to recover only its actual expense
14 for electricity purchased and not more (if the base rate is set using a high rate per
15 kWh) or less (if the base rate is set using a low rate per kWh). For example, if the
16 Commission were to establish the Company's water rates using the \$0.6161 per
17 kWh and the rate per kWh dropped to \$0.3769 after the water rates were
18 established, the utility would not have to pass that substantial decrease in expense
19 to the customers. Likewise, if the situation were reversed, the water rates would
20 have been set using the \$0.3769 and increased to \$0.6161 the utility would not be
21 able to recover that cost. However, with an APCAC, the utility would adjust its

1 charges to its water customers monthly to track the increases or decreases in this
2 major expense item over which the water utility has little control.

3 Q. With specific regard to WOM, is an APCAC essential?

4 A. While it is preferable to have an APCAC and I think it should be added to
5 WOM's tariff, because the total electric expense is less significant than other
6 companies I have represented, it is not necessarily essential as it is for Molokai
7 Public Utilities, Inc. ("MPU").

8 Q. Since the Consumer Advocate recommends that an APCAC should not be
9 established, do you believe the Consumer Advocate recommends a reasonable
10 base cost for either the electric expense or the fuel expense in this case?

11 A. No, I do not.

12 Q. Does Mr. Nishina use a value for the unit cost of electricity that is appropriate and
13 reasonable in setting base rates when there is no APCAC?

14 A. No, he does not. In my experience, when an APCAC is not used as part of a
15 utility's rate structure, the electricity expenses are established using a several year
16 average of the unit cost of electricity since those will fluctuate from month to
17 month and the base rates are established using electricity expense that is based on
18 a reasonable average that should not be at the high or low end of the historic cost
19 structure. This will serve to benefit the customer if the average rate is lower than
20 the current rate and will serve to benefit the utility if the average rate is higher
21 than the current rate. In addition, since the future unit rate is likely to change, use
22 of an average is fair to both customer and utility. On the other hand, when an

1 APCAC is used as part of a utility's rate structure, the most current unit rate is
2 normally used because that rate is adjusted monthly to reflect the changes in
3 electric charges. In that instance it does not matter if a current rate is higher or
4 lower than the average, the customer and utility are fairly treated since the charges
5 to the customer will reflect the changes in the electricity costs.

6 Q. Has the Consumer Advocate followed this procedure in the calculation of his
7 electricity expenses in this proceeding?

8 A. No. As shown on the workpaper calculating the electric cost of \$7,391 the bottom
9 line of page 2, column 14 of Exhibit CA-113, the Consumer Advocate has used
10 the electricity rate for each of the three meters serving WOM, during the month of
11 August 2009 which is close to the lowest monthly rate for any of the 38 months
12 shown on the schedule for the Kualapuu Pump.

13 Q. What is the result of the Consumer Advocate's use of one of the lowest rate per
14 kWh in establishing the electric expense in this proceeding and, at the same time
15 recommending against the use of an automatic recovery clause to track changes in
16 the cost of electricity?

17 A. The result is that the Company will likely not have an opportunity to recover the
18 costs of electricity, even if the volumes used were accurate. Referring to the
19 Kualapuu Pump as the example, Exhibit WOM-R-3, column 4, lines 13, 26 and
20 39 respectively, the average rate per kWh was \$0.4122 for the year ended June
21 30, 2007; \$0.4520 for the year ended June 30, 2008 and \$0.5004 for the year
22 ended June 30, 2009. The rate for the month of August 2009 was \$0.39325 as

1 used by the Consumer Advocate as shown on Exhibit CA-113, page 2, column 4
2 at the bottom of the page. A review of the average annual costs per kWh in
3 column 4 of Exhibit CA-113, page 2 shows that, based on the averages for each
4 year, the Company would not have reached a break-even with the electricity costs
5 and suggests that the Company would not have been able to recover its electricity
6 costs for any of those years.

7 Q. What do you recommend regarding the electricity rate that should be used in this
8 proceeding?

9 A. I recommend that, if an APCAC is used, the most recent rate, in this instance the
10 \$0.4335 average rate for November and December 2009 as shown on Exhibit
11 WOM-R-4, line 6 which is based on Exhibit WOM-R-4, line 6 in columns 3, 6
12 and 9. If an APCAC is not used, the average of the three years ended June 30,
13 2007, 2008 and 2009 of \$0.4776 per kWh as shown on Exhibit WOM-R-3, line
14 40, column 15. This matching of the long-term average rate per kWh with the
15 exclusion of the APCAC or the most current rate per kWh when an APCAC is
16 included as part of the Company's tariff correctly matches the unit rate with the
17 correct recovery procedures and provides a fair and reasonable rate to the
18 Company and its customers.

19 Q. What is the total for the electricity expense the Company is supporting in this
20 proceeding?

1 A. As shown on Exhibit WOM-R-5, line 11, the total electric expense is \$8,832 for
2 the test year, a reduction of \$1,824 from the Company's \$10,656 included on
3 Exhibit WOM 10.2.

4 Q. Do you have any comments regarding the Consumer Advocate's adjustments to
5 the Cost of Sales which result in a test year amount of \$95,680?

6 A. While I do not agree with all of the calculations, the differences would not result
7 in any significant adjustment to the Consumer Advocate's calculation which
8 tracks the change in test year sales, so I am adopting the Consumer Advocate cost
9 of sales amount for the test year and reflecting an adjustment to the Company test
10 year amount of \$11,246 as shown in adjustment E on Exhibit WOM-R-1.

11 Q. What is the Consumer Advocate's proposal for the amount of affiliated charges to
12 be allowed for WOM?

13 A. The Consumer Advocate recommends that the \$18,000 included by WOM for the
14 test year be reduced to the level reflected for MPU for the same period, a
15 reduction of \$8,340.

16 Q. Do you agree with this reduction?

17 A. No, I do not. I know, based on my working with the MPL personnel who perform
18 the daily, weekly, monthly, quarterly and annual activities required to support the
19 operations on Molokai for WOM and MPU that there is a significant level of
20 support and believe that the \$18,000 is appropriate for both WOM and MPU.
21 However, since the Company has not conducted any recent analysis of the
22 activities required by WOM and MPU and does not have a comparative cost

1 analysis to provide, the Company is accepting the Consumer Advocate's
2 adjustment for this proceeding as reflected in adjustment F reducing the Company
3 proposed amount by \$8,340.

4 Q. Do you agree with the Consumer Advocate's adjustment to remove \$442 from the
5 test year expense for professional and outside services?

6 A. While I believe including the five-year average of the expense for providing
7 emergency water should be included, the amount is not a significant amount and I
8 am therefore willing to adopt the reduction proposed by the Consumer Advocate
9 as shown by adjustment G reflected on page 1, line 14 in column 4 of Exhibit
10 WOM-R-1.

11 Q. Please describe the difference between the Company and Consumer Advocate
12 regarding the test year expense for repairs and maintenance ("R&M").

13 A. This difference results from the Company's use of actual 2008 expenses for plant
14 related R&M plus an average for other R&M while the consumer advocate used
15 an average for all of the components of R&M. The Company, based on updated
16 information noted by the Consumer Advocate, agrees to use the averaging for all
17 of the R&M charges and adopts the Consumer Advocate test year expense as
18 shown on Exhibit WOM-R-1, page 1, line 15, column 4 and reflects a downward
19 adjustment of \$6,569 in adjustment H.

20 Q. Do you have an opinion on the Consumer Advocate's recommendation for the
21 level of regulatory expense that should be allowed in this proceeding?

22 A. Yes, I do.

1 Q. Please summarize the Consumer Advocate's position regarding the regulatory
2 expense that should be included in this proceeding.

3 A. The Consumer Advocate adopts the amounts presented by the Company in its
4 initial filing and also uses the three-year amortization period. However, the
5 Consumer Advocate, on pages 31 and 32 of Mr. Nishina's testimony, expressed
6 opinions on the additional costs incurred by the Company.

7 Q. Do you agree with the opinions of the Consumer Advocate as expressed?

8 A. No, I do not and will provide responses and detail to support the increase of the
9 Company's initial estimate. Exhibit WOM-R-6 provides an update of the
10 expenses presented on Exhibit WOM 10.10 and shows that the Company expects
11 to incur \$310,398 in total legal and regulatory costs in connection with this rate
12 application and processing. This is approximately \$145,000 over the initial
13 estimate of \$165,000 included on Exhibit WOM 10.10. The major reason for this
14 increase is the intervention requested by Stand for Water and the County of Maui,
15 which caused the Company to incur additional legal costs which are included in
16 the preparation and filing phase as shown on response to CA-IR-44a since they
17 were incurred prior to the discovery phase of the proceeding. In addition, the
18 increases in the other categories are direct results of the significant increase in
19 discovery and other activities in this case, partially related to the intervention
20 allowed in the proceeding.

1 Q. Can you provide examples of rate case costs for other small water and wastewater
2 companies where you have participated in the filing and processing of rate cases
3 in Hawaii?

4 A. Yes, I can. Over the last three or four years I have participated in filing and
5 processing of eight cases and have prepared budgets for legal and regulatory fees
6 for each. On average, as shown on Exhibit WOM-R-7, the estimates for those
7 cases included approximately \$130,000 for the preparation and filing, discovery
8 and settlement/rebuttal phases and \$35,000 for the hearing and briefing phase. In
9 most of those cases there were no requests for intervention and there were no
10 hearings because the parties reached settlement. The actual costs for the
11 preparation and filing and the discovery and settlement phases were close to the
12 initial estimates and the costs for the hearing were removed since the cases were
13 settled. In one or two instances where there were requests for intervention, the
14 legal costs were slightly higher, mainly because intervention was denied or only
15 limited intervention was granted by the Commission.

16 Q. Can those cases be compared with this case in regard to the regulatory expense to
17 be amortized?

18 A. They can to the extent of the initial estimate only. The initial estimate for the
19 preparation and filing and discovery and settlement phases of \$125,000, shown on
20 line 6, column 2 of Exhibit WOM-R-7, in this case is in line with the average of
21 the estimates and final costs of those other cases. However, since there was

1 limited or no intervention requested or allowed in those proceedings, that's where
2 the comparison ends.

3 Q. Please briefly describe why the costs for the discovery phase increased from the
4 initial estimate.

5 A. The regulatory costs increased for two basic reasons. First, the addition of the
6 intervenors. Second, the Consumer Advocate's information requests seemed to
7 be higher than the other cases, probably, as stated by Mr. Nishina in his testimony
8 on page 17 to 19 that, "...given the possible threat of having services terminated,
9 having greater interest by possible intervenors or participants should not come as
10 a surprise."

11 Q. Did the "greater interest" come as a surprise?

12 A. The greater interest was not a surprise, but the Company had no basis to revise its
13 rate case expense estimates without knowing the extent of that interest. In
14 addition, since rate case expenses are normally updated during the proceeding,
15 there was no reason to guess at the type and scope of this greater interest.

16 Q. Has the Company included the costs of the audit required by the Commission and
17 recommended by the Consumer Advocate?

18 A. Yes, it has. That cost of \$23,665 as shown on line 21 of Exhibit WOM-R-6
19 should be included as part of the costs for the processing of this rate case
20 application which was required to be filed by the Commission pursuant to its
21 Order Denying Waiola O Molokai, Inc.'s Request to Submit Its Unaudited
22 Financial Statements in Lieu of Audited Financial Statements dated April 2, 2009.

1 In addition, since the audit report issued by KPMG LLP provided a clean opinion
2 and also provided support for the amounts reflected on the Company's books and
3 records, the audit costs should be allowed.

4 Q. In your experience, does the audit of a consolidated company normally entail the
5 audit of a small subsidiary operation such as WOM?

6 A. No, it does not. The audit of a consolidated company would normally entail a
7 review at some level, of the operating subsidiaries but would not normally have
8 those financials audited. Depending on the size of the parent, the size and number
9 of the subsidiaries and the activities of the companies, a subsidiary review would
10 normally not be sufficient to satisfy the requirement of an audited statement. In
11 any event, the Consumer Advocate did not recommend that the Company produce
12 financial statements that were reviewed as part of a consolidated audit report. The
13 Consumer Advocate recommended a complete independent audit to be filed with
14 the application and, when the Commission adopted that recommendation, the
15 application that the Commission required the Company to file was rejected and
16 needed to be refilled. The Consumer Advocate, being the party that required the
17 audit, which provided support for the amounts recorded on the Company's books
18 and records, should not now be allowed to recommend that those specific costs be
19 disallowed for recovery as part of the rate case expenses in this proceeding. It is
20 significant to note that in all the "small" rate case I have been involved with in
21 Hawaii, the Consumer Advocate has not opposed, and the Commission has
22 approved, the waiver of the audited financial statement requirement.

1 Q. Please summarize the major reasons for the increase in the rate case expenses
2 from WOM's estimate as reflected in Exhibit WOM 10.10.

3 A. First, the legal expenses increased by approximately \$16,000 during the
4 preparation and filing phase, mainly because of time and expenses related to the
5 intervention process that occurred before the discovery phase began. Next the
6 regulatory and legal expenses incurred in the discovery phase increased by
7 approximately \$50,000 in part due to the activities of the intervention and in part
8 due to the increased amount of discovery discussed above. Third the Company
9 has increased its estimate for the cost of a hearing and briefing phase by \$46,000
10 because of the intervention and possible issues such as the rebuttable presumption
11 issue raised by the Consumer Advocate. Finally, the costs increased by \$23,000
12 for the cost of the audited financial statements required by the Commission.

13 Q. What is the total amount of regulatory costs estimated for this proceeding and the
14 amount of the annual amortization that should be included in rate base?

15 A. As shown on Exhibit WOM-R-6, line 22, the total costs are \$310,398 and the
16 annual amortization would be \$103,466 using the three-year period. The
17 adjustment for this change is shown on Exhibit WOM-R-1, column 4, line 18 as
18 adjustment I in the amount of \$48,466.

19 Q. Do you have any differences with the calculation of the taxes other than income
20 ("TOTI") presented by the Consumer Advocate?

21 A. No, I do not. While we have differences in the amount of TOTI, both the
22 Consumer Advocate and the Company have used the same procedures and the

1 same rates. The differences in the amounts are due to the differences in revenues
2 at either present or proposed rates.

3 Q. What is your understanding of the Consumer Advocate's position on depreciation
4 expense on the Company plant in service?

5 A. As I understand the Consumer Advocate's position, it is recommending that all
6 depreciation be disallowed where the Company does not show that depreciation is
7 also taken for tax purposes, which is stated on page 40, lines 1 to 6 of Mr.
8 Nishina's testimony.

9 Q. Do you understand the reasoning provided for this exclusion?

10 A. It is my understanding that, since the Company cannot provide a complete dollar
11 for dollar reconciliation of the plant depreciated for tax purposes, it should not be
12 allowed to have depreciation for book purposes included in the rates set in this
13 proceeding.

14 Q. In your opinion, does the fact that the Company has not been able to reconcile the
15 plant depreciated for book purposes and the plant depreciated for tax purposes
16 mean that there should be a disallowance of depreciation on book plant?

17 A. No, I do not see any valid reason that the lack of such reconciliation should be
18 used to deny recovery of the book depreciation.

19 Q. What mechanism did the Consumer Advocate use to remove the depreciation
20 expense in its exhibits?

21 A. Referring to Exhibit CA-107, lines 1, 2, 3, 5, 8 and 10 show that the Consumer
22 Advocate has reflected the assets on those lines as being fully depreciated as of

1 June 30, 2008 (column 5) even though those assets have remaining useful lives
2 which is determined by comparing the In-Service Date in column 2 with the
3 useful life shown in column 4. Using the Water System Maunaloa on line 1 as an
4 example, the in-service date is 1987 and the useful life is 30 years which would
5 require depreciation expense through 2017. To remove this item from the
6 depreciation expense calculation the Consumer Advocate has reflected the plant
7 as fully depreciated in 2008 although there are nine more years of depreciation
8 remaining on that asset.

9 Q. Do you agree with that treatment?

10 A. No, I do not. I believe the assets should not be treated in that way by the
11 Consumer Advocate for book and ratemaking purposes simply because the
12 Company cannot provide a complete reconciliation of the book and tax assets.

13 Q. What is your recommendation regarding the Consumer Advocate's position to
14 disallow virtually all of the book depreciation?

15 A. I recommend that the Consumer Advocate's removal of the depreciation expense
16 be rejected and the depreciation on the \$133,286 of depreciation expense be
17 included in expenses for this proceeding. The \$133,286 reflects a reduction of the
18 depreciation expense for the plant additions shown on Exhibit WOM 9.4 on lines
19 21 and 23 because those plant acquisitions have not been made at this time. The
20 adjustment to the Company depreciation expense in the amount of \$3,333 as
21 shown in adjustment K on Exhibit WOM-R-1.

1 Q. Does this change the accumulated depreciation shown on the Company and
2 Consumer Advocate presentations?

3 A. Yes, it does. Those changes are reflected on page 1 of Exhibit WOM-R-1 on line
4 28 in column 4 as adjustment N.

5 Q. Please summarize the Company's recommendation for income tax expense in this
6 proceeding.

7 A. The Company has recommended that all elements related to income taxes be
8 removed from the rate setting process in this proceeding mainly because of the net
9 operating losses ("NOL") that exist for WOM as a stand alone company and also
10 for the consolidated return in which WOM is included. The Consumer Advocate,
11 on pages 33 to 36 of Mr. Nishina's testimony, recognizes that the impact of
12 income tax related elements in this case is small but believes that, "...the principal
13 of the matter should be addressed." The Consumer Advocate then proposes three
14 alternatives to obtain appropriate values for all of the income tax components.
15 First, that the instant proceeding be suspended until the matter is resolved. The
16 second alternative is for the instant application to be dismissed and a new
17 application filed with appropriate values. Finally, the Consumer Advocate
18 proposes that the Company provide its best estimates of the ADIT and HSCGETC
19 that should be calculated as if the Company had properly recorded and taken these
20 appropriate tax benefits.

21 Q. Do you believe any of these options should be adopted by the Commission?

1 A. No, I do not. I think all three of the Consumer Advocate's recommended
2 alternatives should be rejected. I believe the facts in this case are that WOM as a
3 stand alone entity has not had taxable income in the past and therefore would not
4 have been able to use accelerated tax depreciation or take the tax credits provided
5 by the HSCGETC and therefore there would be no "benefits" of tax savings or
6 deferrals to be used as a rate base deduction. In addition, because the level of the
7 stand alone NOLs is significant, it is likely that the Company will not have
8 income tax payment requirements in the near or reasonably foreseeable future. In
9 addition, the customers have not had provisions for income taxes included in
10 setting the current rates and therefore have not provided the Company with funds
11 to pay income taxes that would have been deferred by the use of accelerated tax
12 depreciation or saved through the HSCGETC. Under these conditions, which are
13 not disputed by the Consumer Advocate, there should be no provision for income
14 tax expense and there have been no benefits from the historic use of accelerated
15 tax depreciation or tax savings from the HSCGETC. The Consumer Advocate
16 would have us believe that the use of ADIT and the HSCGETC is a right and
17 customer entitlement at all times. I think this is wrong.

18 Q. Under what conditions do you believe that the customer must be provided with
19 the ADIT and HSCGETC reductions to rate base?

20 A. I think those rate base reductions are appropriate when customers have provided
21 the utility with funds through rates that include an income tax expense
22 component, but those income taxes are deferred (ADIT) or saved (HSCGETC).

1 In those instances, the customer has provided funds to the Company to pay taxes
2 that have been deferred or saved and those funds should be used to reduce rate
3 base since they have reduced the amount of capital required by the Company to
4 fund investment. If the customers' rates have not included an income tax expense
5 component, the customer has paid no income taxes and therefore the Company
6 has not received any funds to offset those required to fund the plant investment.
7 No one should be given a free ride, not the Company and not the customer. In
8 this case, on a stand alone basis, the customers have not paid rates that included a
9 provision for income tax expense and therefore have not provided funds that
10 could be deferred.

11 Q. How do you recommend that the Commission address the income tax expense and
12 related income tax elements in this proceeding?

13 A. I believe that the Commission should exclude each of the elements from the
14 determination of rates in this case. Those elements are excluded from the
15 Company's adjusted balances as shown in adjustment L on lines 23, 32 and 33 in
16 column 4 of Exhibit WOM-R-1.

17 Q. What is the Consumer Advocate's position on rate of return as you understand it?

18 A. The Consumer Advocate proposes that the Commission should only consider a
19 breakeven level regarding rate of return which, based on the Consumer
20 Advocate's schedules and other portions of the testimony, means that the
21 Commission should deny the Company any rate of return in this proceeding.

1 Q. What do you see to be the reasons for the Consumer Advocate's recommendation
2 to deny a rate of return to the Company?

3 A. There are three reasons presented by the Consumer Advocate. First is the ADIT
4 issue that was discussed in the income tax section of my testimony. Second is the
5 current economy and the additional rates that would have to be charged if the
6 Commission allowed any return. Finally, the Consumer Advocate's concern that,
7 since the Company requested a 2.00 percent rate of return when all other small
8 water utilities in Hawaii I am aware of have had rates established using a rate of
9 return in excess of 8 percent, it would not get rate reduction recognition for any
10 pro forma adjustments until the adjustments were significant enough to increase
11 the resulting rate of return to over 8 percent.

12 Q. Are any of these reasons sufficient to deny the Company a rate of return on its
13 investment?

14 A. No, not in my opinion. First the Consumer Advocate's concern that the removal
15 of income tax related reductions to rate base significantly harms the customers is
16 unfounded. As discussed earlier, if the customers have not paid rates that
17 included income taxes that were deferred, there should be no ADIT or
18 HSCGETC. However, assuming that there would be a reduction, the proposed
19 rate base includes reductions for income tax related elements of approximately
20 \$55,000. At a 2.00 percent rate of return that would require a net operating
21 income amount of approximately \$1,100 and revenue increase under \$2,000. The
22 income tax expense shown on Exhibit WOM-6 at proposed rates of \$6,486 would

1 also be removed which would result in a revenue decrease of over \$6,000. The
2 net difference is a reduction in revenue requirement of approximately \$4,000 and
3 is not significant enough to justify a denial of rate of return.

4 Q. Please address the second reason for the Consumer Advocate's recommendation
5 to deny the Company a rate of return.

6 A. The second reason, dealing with the magnitude of the increase and the impact on
7 the customers, was addressed by the Company when it decided to request only a
8 2.00 percent rate of return in lieu of the over 8.00 percent that has been used to
9 establish rates for small water companies in recent cases. The Company believes
10 that it should not be penalized for the historic economic conditions in the nation,
11 state, or on the island of Molokai.

12 Q. Finally, should the Consumer Advocate's third reason be considered?

13 A. No, it should not.

14 Q. Under the Company's proposal, what rate of return is the Company
15 recommending at this time?

16 A. The Company is supporting the use of the 2.00 percent rate of return it originally
17 proposed based on its adjusted expenses shown on Exhibit WOM-R-1.
18 Adjustment O reflects the increase in revenue required to attain the 2.00 percent
19 ROR after the pro forma adjustments are reflected as shown on Exhibit
20 WOM-R-1, columns 3 to 6. The Company believes this is the correct action
21 because it has updated its positions with the adjustments shown on Exhibit
22 WOM-R-1 based on more current data and updates to its filed exhibits.

1 Q. Please describe the adjustments to revenue reflected on lines 1 and 2 in columns 4
2 and 5.

3 A. The adjustments in column 4 reflects the Company's agreement with the update
4 of its revenues at present and temporary rates to reflect the signification reduction
5 in usage experienced over the last year which was after the Company made its
6 initial test year estimates for customer usage and revenues. This reduction in
7 customer usage was first noted in the Company's response to CA-IR-50b. As
8 noted again in my earlier testimony, the Consumer Advocate's test year estimates,
9 which were based on customer usage data through October 2009 reflected the
10 same downward trend in the customer usage and finally as reflected in the
11 customer usage for the three months ended January 2010, there was no material
12 change in customer usage from that used by the Consumer Advocate and adopted
13 by the Company. The adjustments in column 5 reflect the additional revenue to
14 achieve a ROR of 2.00 percent on rate base as reflected in the calculations shown
15 in column 6.

16 Q. What is the Company's revised revenue requirement?

17 A. As shown on Exhibit WOM-R-1, line 6 in column 6, the test year revenue
18 requirement is \$593,555.

19 Q. Is that greater than the revenue requirement in the Company's application?

20 A. No, it is not. That revenue requirement was \$597,091.

21 Q. The Consumer Advocate has proposed recognition of some form of excess
22 capacity to address the fact that several large customers, who were provided

1 service in prior periods but are not currently taking service and will not be
2 through and after the end of the test year in this proceeding, are not taking service.

3 Do you agree that any form of excess capacity should be recognized?

4 A. No, I do not support any adjustment that would be based on excess capacity.

5 Q. Please explain your reason for rejecting an adjustment for excess capacity.

6 A. While I am familiar with and have recommended excess capacity adjustments to
7 reduce utility plant included in rates, this is not an instance where such an
8 adjustment is appropriate. In my experience, an excess capacity adjustment is
9 warranted when the utility has constructed plant that is beyond what is reasonably
10 needed to provide service to its customers. That is not the case in this instance.
11 The plant currently in rate base was constructed during period from 2003 to 2007
12 with some minor additions in the test year and has been used to provide service to
13 customers. This plant was and is used and useful in providing service to
14 customers. The Consumer Advocate's various excess capacity discussions seek
15 to penalize the utility because economic conditions have forced several of the
16 Company's larger customers to close and leave the Company's customer base. It
17 is unfair for the Commission to take the action recommended by the Consumer
18 Advocate to impose an excess capacity penalty on the Company either in the form
19 or a reduction to rate base or the disallowance of a rate of return.

20 Q. Do you have any comments regarding the validity of the Company records?

21 A. Yes, I do. While I recognize that there have been some difficulties during this
22 case because of changes in accounting procedures from 2006 to 2008 and with the

1 differences between the book and tax plant used for depreciation calculation, I
2 think the Company has addressed those issues and shown that they did not have
3 any impact on the test year data or, as is the case with the tax issues, do not have a
4 significant impact on the revenue requirement. In addition, the Company's
5 financial accounting records, based on the independent auditor's report for the
6 calendar year ended December 31, 2008, "...present fairly in all material respects
7 the financial position of Wai'ola O Molokai, Inc. as of December 31, 2008, and
8 the results of its operations and cash flows for the year then ended in conformity
9 with generally accepted accounting principles." Finally, the Company has
10 provided responses to more than 100 multi-part information requests from the
11 Consumer Advocate and the County of Maui over the last several months which
12 have provided support for the Company's plant and accumulated depreciation,
13 revenue and expenses. While some of the information requested, mainly
14 customer billing information and consumption data, was not available from the
15 Company's records in the form the Consumer Advocate or County requested, the
16 Company offered to make its records available to the parties so they could create
17 the summaries of that data in the form they required. The Company also tried to
18 provide detail and summaries to restate the accounting information in a consistent
19 form so that the historic data was shown in a consistent manner and format that
20 matched the current accounting procedures.

21 Q. What is the Company's adjusted position regarding the revenue increase required?

1 A. As shown on Exhibit WOM-1, column 6, lines 1 to 6, the Company has decreased
2 its revenue requirement by approximately \$3,536 and is still proposing a 2.0
3 percent rate of return as shown on line 36 of column 6. The Company believes
4 that, since the adjustments it has made, such as the removal of the eighth
5 employee, its adjustments are updates to its original filing and the basis for use of
6 the 2.0 percent rate of return is still valid.

7 Q. Turning now to the issue of rebuttable presumption as included by the Consumer
8 Advocate on page 38 of Mr. Nishina's testimony, do you have any comments
9 regarding that issue?

10 A. First, based on discussions with the Company's attorneys, I do not believe that the
11 plant provided by the Company to provide service to its customers would fall
12 under the parameters of the rebuttable presumption. Second, I do not believe,
13 other than the mere mention of the issue, that the Consumer Advocate has
14 provided any evidence that would suggest that the rebuttable presumption issue
15 can be applied in this case and finally, I think it is a legal issue that should be
16 addressed by the lawyers.

17 Q. Does this complete your rebuttal testimony?

18 A. Yes it does.

Waiola O Molokai
Company and Consumer Advocate Comparison
Test Year Ending June 30, 2010

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	
Line #	WOM As Filed		WOM At Proposed Rates				Consumer Advocate			Difference [9] - [6]	
	Present Rates	Temporary Rates	As Filed	Adjustments	Adjustments	Revised	At Present Rates	At Temporary Rates	At Proposed Rates		
REVENUE											
1	Monthly Customer Charge	\$30,860	\$ 30,860	\$ 148,416	\$265 B	\$ 10,395 O	\$ 159,076	\$31,125	\$31,125	\$130,749	(\$28,327)
2	Water Usage Charge	92,500	257,500	448,375	(46,401) B	31,405 O	433,379	75,832	211,099	322,780	(110,599)
3	Connection Fees										0
4	Late Fees	300	300	300	800 B		1,100	1,100	1,100	1,100	0
5											
6	Total Operating Revenues	123,660	288,660	597,091	(45,336)	41,800	593,555	108,057	243,324	454,629	(138,926)
EXPENSES											
7	Labor, PR Tax & Empl Bene	141,449		141,449	(14,204) C		127,245	101,242		101,242	(26,003)
8	Electricity Expense	10,656		10,656	(1,824) D		8,832	7,391		7,391	(1,441)
9		0		0			0				0
10	Cost of Sales	106,926		106,926	(11,246) E		95,680	95,680		95,680	0
11		0		0			0				0
12	Materials & Supplies	13,581		13,581			13,581	13,581		13,581	0
13	Affiliated Charges	18,000		18,000	(8,340) F		9,660	9,660		9,660	0
14	Prof & Outside Services	3,598		3,598	(442) G		3,156	3,156		3,156	0
15	Repairs & Maintenance	17,088		17,088	(6,569) H		10,519	10,519		10,519	0
16		0		0			0				0
17	Insurance	16,000		16,000			16,000	16,000		16,000	0
18	Regulatory Expense	55,000		55,000	48,466 I		103,466	55,000		55,000	(48,466)
19	General & Administrative	5,855		5,855			5,855	5,885		5,885	30
20	Total O&M Expenses	388,153	0	388,153	5,841	0	393,994	318,114	0	318,114	(75,880)
21	Taxes, Other Than Income	7,896		38,124	(2,668) J	2,460 J	37,916	6,899		29,028	(8,888)
22	Depreciation	136,619		136,619	(3,333) K		133,286	107,490		107,490	(25,796)
23	Income Taxes	(157,968)		6,486	(6,486) L		0				0
24	Diff. due to changing factors										0
25	Total Operating Expenses	374,700	0	569,382	(6,646)	2,460	565,196	432,503	0	454,632	(110,564)
26	Operating Income	(\$251,040)		\$27,709	(\$38,690)	\$39,340	\$28,359	(\$324,446)		(\$3)	(\$28,362)
AVERAGE RATE BASE											
27	Plant in Service	\$ 3,363,813		\$ 3,363,813	\$ (30,000) M		\$ 3,333,813	\$ 3,333,813		\$ 3,333,813	0
28	Accumulated Depreciation	(1,907,727)		(1,907,727)	1,667 N		(1,906,061)	(2,055,052)		(2,055,052)	(148,992)
29	Net Plant	1,456,086	-	1,456,086	(28,334)	-	1,427,753	1,278,761	-	1,278,761	(148,992)
30											
31	Customer Deposits	(43,710)		(43,710)			(43,710)	(43,710)		(43,710)	0
32	ADIT	(54,950)		(54,950)	54,950 L		0	3,474		3,474	3,474
33	HCGETC	(935)		(935)	935 L		0	(15,385)		(15,385)	(15,385)
		0		0			0				0
34	Working Capital	32,346		32,346	487 A		32,833	26,509		26,509	(6,324)
35	Average Rate Base	\$ 1,388,837	\$ -	\$ 1,388,837	\$ 28,039	\$ -	\$ 1,416,876	\$ 1,249,649	\$ -	\$ 1,249,649	\$ (167,227)
36	Return on Rate Base	-18.08%		2.00%			2.00%				

Wailoa O Molokai
Rebuttal Adjustments

Adj #	Description	[1]	[2]	[3]
		Reference #	Amount	Total
A	Change in Working Capital at 1/12 of Expense			\$ 487
B	Monthly Customer Charge Revenue		\$ 265	
	Customer Usage Revenue		(46,401)	
	Other Revenue		800	
	Total Adjustment - Temporary Rates			\$ (45,336)
C	Removal of S&W, PR Tax & Benefits			\$ (14,204)
D	Change in Electric Expense			\$ (1,824)
E	Cost of Sales			\$ (11,246)
F	Affiliated Company Charges			\$ (8,340)
G	Professional & Outside Services			\$ (442)
H	Repairs & Maintenance			\$ (6,569)
I	Regulatory Expense			\$ 48,466
J	Taxes Other than Income -- Revenue times 5.885%			
K	Depreciation Expense			\$ (3,333)
L	Income Taxes			\$ (6,486)
L	ADIT			\$ 54,950
L	HCGETC			\$ 935
M	Plant in Service			\$ (30,000)
N	Accumulated Depreciation			\$ 1,667
O	Change in Proposed Rates			
	Monthly Customer Charge	\$ 148,416	24.87%	\$ 10,395
	Usage Charges	448,375	75.13%	31,405
	Total Adjustment	\$ 596,791		\$ 41,800
			\$ 41,800	
	Taraget Rate of Return		2.00%	

Waiola O Molokai, Inc.
Revenue Percent Increase
Test Year Ending June 30, 2010

		[1]	[2]	[3]
Line #		Present Rates	WOM As Filed Temporary Rates	As Filed
<u>WOM REVENUE</u>				
1	Monthly Customer Charge	\$30,860	\$ 30,860	\$ 148,416
2	Water Usage Charge	92,500	257,500	448,375
3	Connection Fees			
4	Late Fees	300	300	300
5	Total Operating Revenues	<u>\$ 123,660</u>	<u>\$ 288,660</u>	<u>\$ 597,091</u>
6	Percent Increase over Present Rates [a]			<u>383.8%</u>
7	Percent Increase over Temporary Rates [a]			<u>107.0%</u>
<u>CONSUMER ADVOCATE REVENUE</u>				
8	Monthly Customer Charge	\$31,125	\$31,125	\$130,749
9	Water Usage Charge	75,832	211,099	322,780
10	Connection Fees			
11	Late Fees	1,100	1,100	1,100
12	Total Operating Revenues	<u>\$ 108,057</u>	<u>\$ 243,324</u>	<u>\$ 454,629</u>
13	Percent Increase over Present Rates [a]			<u>324.0%</u>
14	Percent Increase over Temporary Rates [a]			<u>87.2%</u>
[a]	Excludes Late Fees			

Waiola O Molokai
ELECTRIC CHARGES
Test Year Ending June 30, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]	[13]	[14]	[15]
Line #	Description	Kualapuu Pump				Kalae Booster Pump				Kualapuu Reservoir				TOTAL		
		# of Days	KWH Usage	Total Charge	Charge Per KWH	# of Days	KWH Usage	Total Charge	Charge Per KWH	# of Days	KWH Usage	Total Charge	Charge Per KWH	KWH Usage	Total Charge	Charge Per KWH
1	7/25/06	32	1,037	\$ 450	0.4335	32	1	\$ 38	38.1400	32	45	40	0.8922	1,083	\$ 528	0.4874
2	8/24/06	30	1,400	598	0.4272	30	1,530	651	0.4252	30	106	65	0.6119	3,036	1,314	0.4327
3	9/22/06	29	1,491	634	0.4251	29	480	227	0.4720	29	54	44	0.8119	2,025	904	0.4466
4	10/24/06	32	1,432	603	0.4208	32	470	220	0.4682	32	6	27	4.5167	1,908	850	0.4453
5	11/22/06	29	765	333	0.4353	29	220	119	0.5426	29	43	39	0.9056	1,028	491	0.4779
6	12/22/06	30	672	289	0.4307	30	390	182	0.4664	30	5	27	5.4200	1,067	498	0.4671
7	1/23/07	32	954	385	0.4031	32	480	210	0.4374	32	49	40	0.8192	1,483	635	0.4279
8	2/22/07	30	1,217	481	0.3951	30	350	162	0.4625	30	6	27	4.5167	1,573	670	0.4258
9	3/23/07	29	1,260	492	0.3903	29	440	193	0.4393	29	47	39	0.8340	1,747	724	0.4146
10	4/24/07	32	1,282	502	0.3916	32	1,120	443	0.3953	32	6	27	4.5167	2,408	972	0.4036
11	5/23/07	29	1,500	588	0.3923	29	540	233	0.4316	29	90	55	0.6156	2,130	877	0.4117
12	6/22/07	30	638	271	0.4246	30	1,430	566	0.3959	30	5	27	5.4200	2,073	864	0.4168
13	Total 6-30-07		13,648	\$ 5,625	0.4122		7,451	\$ 3,244	0.4353		462	458	0.9914	21,561	\$ 9,327	0.4326
14	7/23/07															
15	8/23/07	30	1,618	674	0.4168	30	700	311	0.4437	30	50	41	0.8200	2,368	1,026	0.4333
16	9/24/07	32	1,767	743	0.4205	32	980	427	0.4355	32	49	42	0.8525	2,796	1,212	0.4333
17	10/27/07	30	1,589	659	0.4150	30	750	629	0.8383	30	49	41	0.8449	2,388	1,330	0.5568
18	11/23/07	30	1,585	661	0.4172	30	720	318	0.4424	30	372	170	0.4557	2,677	1,149	0.4293
19	12/24/07	31	703	323	0.4591	31	530	252	0.4746	31	5	27	5.4680	1,238	602	0.4860
20	1/24/08	31	916	436	0.4762	31	580	289	0.4985	31	5	29	5.7880	1,501	754	0.5025
21	2/25/08	32	1,024	491	0.4793	32	460	240	0.5216	32	457	227	0.4963	1,941	958	0.4933
22	3/25/08	29	1,244	588	0.4726	29	290	164	0.5661	29	187	107	0.5703	1,721	859	0.4990
23	4/22/08	28	1,245	592	0.4752	28	315	178	0.5666	28	40	46	1.1375	1,600	816	0.5098
24	5/23/08	30	1,428	695	0.4869	30	470	253	0.5374	30	6	29	4.8233	1,904	977	0.5131
25	6/24/08	32	1,339	672	0.5022	32	450	249	0.5543	32	34	40	1.1688	1,823	962	0.5275
26	Total 6-30-08		14,458	\$ 6,535	0.4520		6,245	\$ 3,310	0.5300		1,254	798	0.6360	21,957	\$ 10,643	0.4847
27	7/24/08	30	1,414	752	0.5315	30	660	370	0.5601	30	5	29	5.7840	2,079	1,150	0.5532
28	8/25/08	32	1,445	690	0.6161	32	480	292	0.6092	32	188	124	0.6609	2,113	1,307	0.6185
29	9/24/08	30	1,261	729	0.5780	30	650	393	0.6044	30	911	525	0.5758	2,822	1,646	0.5834
30	10/24/08	30	1,139	632	0.5551	30	420	255	0.6071	30	5	29	5.7840	1,564	916	0.5858
31	11/24/08	31	878	471	0.5369	31	360	214	0.5948	31	6	29	4.8200	1,244	714	0.5743
32	12/24/08	30	473	252	0.5332	30	230	141	0.6121	30	187	109	0.5844	890	502	0.5644
33	1/26/09	33	527	261	0.4953	33	290	160	0.5517	33	6	29	4.8333	823	450	0.5468
34	2/23/09	28	644	292	0.4534	28	300	155	0.5167	28	5	29	5.8000	949	476	0.5016
35	3/24/09	29	749	316	0.4219	29	300	148	0.4933	29	189	94	0.4974	1,238	558	0.4507
36	4/23/09	30	1,048	408	0.3893	30	520	220	0.4231	30	42	38	0.9048	1,610	666	0.4137
37	5/22/09	29	722	284	0.3934	29	690	273	0.3957	29	5	29	5.8000	1,417	586	0.4136
38	6/24/09	33	1,080	407	0.3769	33	710	279	0.3930	33	94	56	0.5957	1,884	742	0.3938
39	Total 6-30-09		11,380	\$ 5,695	0.500400		5,610	\$ 2,900	0.516900		1,643	\$ 1,120	0.681610	18,633	\$ 9,714	0.521350
40	Average 2007 to 2009		39,486	\$ 17,855	\$ 0.45218		19,306	\$ 9,453	\$ 0.48966		3,359	\$ 2,376	\$ 0.70721	62,151	\$ 29,684	\$ 0.47760

Waiola O Molokai
Base Costs for APCAC

Year Ended June 30, 2010

Line #		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
		Kualapuu Pump			Kalahe Pump			Kualapuu Reservoir		
		kWh	Amount	\$ per kWh	kWh	Amount	\$ per kWh	kWh	Amount	\$ per kWh
<u>ELECTRIC</u>										
<u>Total By Pump</u>										
1	MECO Bill for November 2009	993	\$ 415	\$ 0.4179	100	\$ 78	\$ 0.7800	911	\$ 371	\$ 0.4072
2	MECO Bill for December 2009	900	380	\$ 0.4222	130	85	\$ 0.6538	726	301	\$ 0.4146
3	Total	<u>1,893</u>	<u>795</u>	<u>\$ 0.4200</u>	<u>230</u>	<u>163</u>	<u>\$ 0.7087</u>	<u>1,637</u>	<u>672</u>	<u>\$ 0.4105</u>
<u>Total All</u>										
4	MECO Bill for November 2009	2,004	\$ 864	\$ 0.4311						
5	MECO Bill for December 2009	1,756	766	\$ 0.4362						
6	Total	<u>3,760</u>	<u>1,630</u>	<u>\$ 0.4335</u>						

ELECTRIC CHARGES

Line #	Description	[1] Factor Or Reference	[2] Amount	[3] Sub-Total	[4] Total
<u>Kualapuu Pump</u>					
1	Pro Forma kWh usage		10,946		
2	Total Cost Per kWh		\$ 0.42000		
3	Pro Forma Expense			\$ 4,597	
<u>Kalae Pump</u>					
4	Pro Forma kWh usage		5,396		
5	Total Cost Per kWh		\$ 0.70870		
6	Pro Forma Expense			\$ 3,824	
<u>Kualapuu Reservoir</u>					
7	Pro Forma kWh usage		1,000		
8	Total Cost Per kWh		\$ 0.41050		
9	Pro Forma Expense			\$ 411	
10	Total Pro Forma Electric Expense				<u>\$ 8,832</u>
11	Total Pro Forma Electric Expense		\$ 8,832		
12	Total kWh		17,342		
13	Total Cost Per kWh			<u>\$ 0.5093</u>	

Wailoa O Molokai, Inc.
Regulatory Expense
Test Year Ending June 30, 2010

		[1]	[2]	[3]
Line #	Description	Ref:	Amount	Total
<u>PREPARATION AND FILING - Actual</u>				
1	Regulatory		\$36,978	
2	Legal		36,655	
3	Travel			
4	Other Non-Labor			
5	Sub-Total			73,633
<u>DISCOVERY - REVISED</u>				
<u>Actual to December 31, 2009</u>				
6	Regulatory		40,886	
7	Legal		71,899	
8	Travel			
9	Other Non-Labor			
10	Sub-Total			112,785
<u>REBUTTAL</u>				
<u>January Actual & Estimated February</u>				
11	Regulatory		13,615	
12	Legal		20,000	
13	Travel			
14	Other Non-Labor			
15	Sub-Total			33,615
<u>HEARING, BRIEFING AND INTERIM RATES</u>				
<u>Estimated to Completion</u>				
16	Regulatory		18,200	
17	Legal		40,000	
18	Travel		8,500	
19	Other Non-Labor			
20	Sub-Total			66,700
21	Audit Expense			23,665
22	TOTAL RATE CASE EXPENSE			\$310,398
23	Amortization Period			3
24	Annual Amortization Expense	L 22 / L 23		\$ 103,466
25	Included in original filing			55,000
26	Rebuttal Adjustment	L 24 - L 25		<u>\$ 48,466</u>

Wailoa O Molokai, Inc.
Regulatory Expense
Test Year Ending June 30, 2010

REGULATORY CHARGES

Line #	Description	[1] Ref:	[2] Amount	[3] Sub Total	[4] Total
<u>PREPARATION AND FILING - Actual</u>					
1					
2	2008 -- March & April & October		\$ 2,604		
3	-- November		521		
4	-- December		3,906		
5	2009 -- January		9,114		
6	-- February		16,406		
7	-- June		4,427		
8	Total Preparation & Filing				<u>\$ 36,978</u>
<u>DISCOVERY - REVISED</u>					
	<u>Actual to December 31, 2009</u>				
9	2009 -- September		9,115		
10	-- October		5,187		
11	-- November		13,542		
12	-- December		13,042		
13	Total Discovery				<u>\$ 40,886</u>
<u>REBUTTAL</u>					
	<u>Actual January + Estimated February</u>				
14	2010 -- January - Actual		2,865		
15	-- February - Estimated		10,750		
16	Total Rebuttal				<u>13,615</u>
<u>HEARING, BRIEFING AND RATES</u>					
	<u>Estimated to Completion</u>				
17	2010 -- March		7,800		
18	-- April		5,200		
19	-- May		-		
20	-- June		5,200		
21	Sub-Total			18,200	
22	Travel, Hotel and Expenses		3,000		
23	Other		500		
24	Sub-Total			3,500	
25	Total Hearing, Briefing & Rates				<u>\$ 21,700</u>
					<u>\$ 113,179</u>

Wailoa O Molokai, Inc.
Regulatory Expense
Test Year Ending June 30, 2010

LEGAL CHARGES

Line #	Description	{ 1 } Ref:	{ 2 } Amount	{ 3 } Sub Total	{ 4 } Total
<u>PREPARATION AND FILING - Actual</u>					
1	2008 -- March & April				
2	-- October				
3	-- November				
4	-- December				
5	2009 -- January				
6	-- February				
7	-- June		36,655		
8	Total Preparation & Filing				\$ 36,655
<u>DISCOVERY - REVISED</u>					
<u>Actual to October 31, 2009</u>					
9	2009 -- September				
10	-- October				
11	-- November				
	-- December		71,899		
12	Total Discovery				\$ 71,899
<u>REBUTTAL</u>					
<u>Estimated From January to February</u>					
13	2010 -- January				
14	-- February		20,000		
15	Total Rebuttal				20,000
<u>HEARING, BRIEFING AND INTERIM RATES</u>					
<u>Estimated to Completion</u>					
16	2010 -- March				
17	-- April				
18	-- May				
19	-- June		40,000		
20	Sub-Total			40,000	
21	Travel, Hotel and Expenses				
22	Other		5,000		
23	Sub-Total			5,000	
24	Total Hearing, Briefing & Rates				\$ 45,000
					\$ 173,554

Waiola O Molokai
Comparable Regulatory Expense
Test Year Ending June 30, 2010

Line #	Description	[1] Docket Number	[2] Preparation, Discovery/Settle/Rebuttal		[4] Hearing	[5] Total { 3 } + { 4 }
			Included in Application	Included in Settlement		
1	Hawaiian Beaches Water Company	2009-0161	\$ 139,600	\$ 139,600	\$ 40,000	\$ 179,600
2	Kapalua Water Company	2008-0325	\$ 164,000	\$ 164,000	\$ 38,000	\$ 202,000
3	Kohala Ranch Water Company	2008-0238	\$ 149,000	\$ 147,000	\$ 38,000	\$ 185,000
4	Kukio Sewer Company [A]	2007-0198	\$ 91,000	\$ 88,000	\$ 26,000	\$ 114,000
5	Kukio Water Company [A]	2007-0198	\$ 124,000	\$ 121,000	\$ 26,000	\$ 147,000
6	Molokai Water Company [B]	2009-0048	\$ 125,000		\$ 40,000	\$ 165,000
7	Wiamea Wastewater Company	2008-0261	\$ 129,000	\$ 131,635	\$ 33,000	\$ 164,635
8	Waiola O Molokai [C]	2009-0049	\$ 125,000		\$ 40,000	\$ 165,000
9	Average		\$ 130,825	\$ 131,873	\$ 35,125	\$ 166,998

[A] Total per case costs reduced -- Cases filed at same time

[B] Case still open - Active Intervention - Hearings expected

[C] Case still open - Hearings expected

CERTIFICATE OF SERVICE

I (we) hereby certify that copies of the foregoing document were duly served on the following parties, by having said copies delivered as set forth below:

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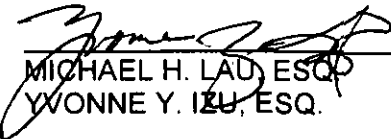
MARGERY S. BRONSTER, ESQ. JEANNETTE H. CASTAGNETTI, ESQ. Bronster Hoshibata 2300 Pauahi Tower 1003 Bishop Street Honolulu, HI 96813	1 copy U.S. Mail
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Attorney for MOLOKAI PROPERTIES LIMITED

DATED: Honolulu, Hawai'i, February 10, 2010.



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